

Fall 2005

MESSAGE FROM THE ACTING GOVERNOR



In order for New Jersey to be at its best, it needs to be healthy. As such, health care is a top priority for my Administration. I am grateful that the NJHCFFA joins us in these efforts.

On September 8th, the

Richard J. Codey NJHCFFA closed a \$186,565,000 bond transaction on behalf of the New Jersey Department of Human Services. The proceeds will be used to complete a new Greystone Park Psychiatric Hospital replacing the outdated Morris County facility and also to renovate existing cottages on its campus.

Thanks to the joined efforts of the Department of Human Services, the Department of Treasury, the Economic Development Authority, and the NJHCFFA, the new facilities will treat and house roughly 510 individuals from New Jersey's mentally ill population.

The new Greystone facility allows for diverse treatments in which patients who are appropriate for discharge can leave the hospital to lead a normal life. I am proud to witness a turning point in the way we care for the mentally ill, and I look forward to the rewards of a greater productive society that reaps the gifts of such newly empowered and competent citizens.

In other developments, the State invested \$10.5 million to support stem cell research. The funds will provide for research grants and help the Stem Cell Institute of New Jersey recruit leading scientists and set up clinical trials, laying the groundwork for the Garden State's future medical breakthroughs.

We also developed the *Guide to Community-Based Long Term Care*, a free publication at www.nj.gov/health/senior/ltcguide.shtml that explains the issues and options available for New Jerseyans as they confront difficult decisions surrounding advanced age.

My Administration supports the Authority in its mission, and I appreciate their joining in our efforts, as well. Together, we are working to make this state safe and our families healthy. §



Architect's rendering of the new Greystone Park Psychiatric Hospital facility

FINANCING NOTES

On September 8, 2005, the Authority closed a \$186,565,000 transaction on behalf of the **New Jersey Department of Human Services ("DHS")**, the proceeds of which will be used to complete renovation and construction projects at the Greystone Park Psychiatric Hospital site.

The projects will result in a replacement hospital that will house approximately 450 patients, administrative offices and other ancillary facilities. Renovations are also being made to several cottages on the campus, which will create housing for approximately 60 additional residents.

Acting Governor Richard J. Codey, a strong supporter of the project, stated, "Over the years the hospital became a symbol of the neglect that plagued New Jersey's mental health system. Those days are over."

According to the bond documents, DHS will pay the debt service on the bonds, as well as any administrative expenses of the Authority, through rental payments made to the Authority. These rental payments will be subject to appropriation by the State Legislature and a default will only occur if the Legislature makes an appropriation and

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EQUIPMENT REVENUE NOTE PROGRAM AVAILABLE

Changes in the procedures used for the Equipment Revenue Note Program ("ERN") have resulted in a streamlined product that can minimize time for financing and/or refinancing the capital equipment needs of the Authority's eligible borrowers.

The Authority now approves one Request for Negotiated Sale for all of the ERN issues completed during the year, rather than requiring approval for each borrower. This pre-approval shortens the financing process by as much as a month. Also, the borrower can bring a bond purchaser to the table, eliminating the time needed for the Authority to obtain competitive bids.

Adding to the efficiency and cost-effectiveness is the selection of a single bond counsel firm to handle all ERN financings for a two-year period.

To be eligible for the ERN, the issue must be \$15 million or less, the proceeds must be used only for equipment acquisition costs, and the bonds must not be rated or enhanced.

If you are interested in an ERN, notify

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MESSAGE FROM THE EXECUTIVE DIRECTOR

In the wake of Hurricane Katrina and with the passing of the fourth anniversary of 9/11, one cannot help but to view life, family and profession a little differently. We are reminded by such tragedies to slow down and appreciate our surroundings. Often times, these instances allow individuals to step away from their jobs and redirect energies to times away from the office. Here at the Authority, though, it's hard to not reflect more on our work in times of devastation.

Images of ailing and injured victims, massed without access to treatment, replay before us on television and online. Audio clips of tremendous struggle find us in our cars and shops. With the onslaught of human suffering in the media, I cannot help but to be reinvigorated in our duties at the Authority.

Our mission, to ensure that all health care organizations have access to financial resources to improve the welfare of the citizens of the State, is now amplified. Hospitals are a crucial part of our infrastructure. They bring life through their neo-natal units. They help our citizens remain stalwart against threatening debilitations, and they perform miracles that add years of life in the face of death. When miracles fall short, they bring our families closer to pull through the loss and sadness.

In a catastrophe, hospitals become a pillar of hope and strength, working sleeplessly to bring comfort to the ill and healing to the community. These are the places that people trust with their life and turn to when it is threatened.

These are also the places the Authority helps to keep best able to serve the community.

New Jersey's health network is one of which we can be proud. Our state is home to internationally acclaimed research centers, top health care providers, and globally-influential doctors. The Authority is proud to be able to help these facilities stay at the top of their game.

So yes, the recent events have caused me to drive a little slower, look at my wife a little longer and think more about the things I have rather than those I do not. However, the events have not distanced me from my work, but rather brought me closer to it. I am proud of the Authority's contribution and I am thankful for our competent and motivated Members and staff working to strengthen New Jersey's health care network. §

VARIABLE RATE COMPOSITE PROGRAM

The Authority is preparing the sixth tranche of its Variable Rate Composite Program ("COMP"). The COMP is designed to lower the costs of issuance for smaller borrowings. Under the program, bonds can be marketed for several borrowers at once, and yet each borrower is only responsible for its own series of bonds. Each new group of issues marketed simultaneously through the program is called a "tranche".

What can COMP offer your organization?

- Low cost variable interest rate debt
- Loan terms negotiated directly between the borrower and the credit enhancer
- Security provided through equipment liens and/or master indenture notes
- Standardized documents to cut draft time
- Straightforward and uncomplicated prepayment terms
- Shared costs of issuance among several borrowers
- Ability to issue both taxable and tax-exempt bonds

Under the COMP, the standardization of documents and the simultaneous marketing of the bonds reduce the costs of issuance. Borrowers can use either a let-

ter of credit or a bond insurance policy as the credit and liquidity support for the borrowing, though all of the borrowers thus far have opted for a letter of credit.

If you are interested in borrowing funds through the Variable Rate Composite Program, simply notify Suzanne Walton, the Authority Project Manager for the COMP.

Four borrowers participated in the Authority's fifth tranche of the COMP, which closed June 24, 2004, as follows:

- **South Jersey Hospital's** bonds had a 30-year maturity, were rated "Aa2/VMIG1" by Moody's, were backed by a Wachovia Bank Letter of Credit, and had an initial interest rate of 1.04%, reset weekly.
- **Beth Israel Hospital Association of Passaic's** bonds had a 10-year maturity, were rated "A2/VMIG1" by Moody's, were backed by a Commerce Bank Letter of Credit, and had an initial interest rate of 1.07%, reset weekly.
- **Meridian Nursing & Rehabilitation at Red Bank's** bonds had a final maturity of July 1, 2035, were rated "Aa1/VMIG1" by Moody's, were backed by a Fleet National Bank Letter of Credit, and had an initial interest rate of 1.03%, reset weekly.
- **Bayshore Community Hospital's** bonds had a 10-year maturity, were rated "A2/VMIG1" by Moody's, were backed by a Commerce Bank Letter of Credit, and had an initial interest rate of 1.07%, reset weekly. §

<p style="text-align: center;">NJHCFFA 2005 ISSUES THROUGH SEPTEMBER 15th</p>		
Cerebral Palsy Center	Capital Asset Loan Program	\$1,500,000
Recovery Management Systems	Variable rate: reset weekly	\$13,860,000
AtlanticCare Regional Medical Center	Capital Asset Loan Program	\$25,000,000
Avalon at Hillsborough, Series A	Fixed rate	\$10,880,000
Avalon at Hillsborough, Series B	Fixed rate; Federally taxable	\$1,175,000
RWJ at Hamilton, Series A	Multi-modal; Initially 7-day auction rate mode	\$30,300,000
RWJ at Hamilton, Series B	Fixed rate	\$65,375,000
NJ Dept. of Human Services	Fixed rate	\$186,565,000
2005 Debt Issued through Sept. 15th:		\$334,655,000

NJHCFFA STAFF NOTES



Bernard J. Miller, Jr.

Authority staff would like to issue a warm welcome to two new Authority hirees.

Bernard J. Miller, Jr., the Authority's new Construction Manager, fills a vacancy left by

William Lohman, who took a position with the New Jersey Department of Health and Senior Services. Prior to joining the Authority on May 23, 2005, Mr. Miller worked as a Senior Architect for K. Hovnanian Enterprises and as Staff Architect at Raritan Bay Medical Center.

Mr. Miller is affiliated with AHA/American Society for Hospital Engineering, and he earned his Bachelor of Architecture degree from the Pratt Institute in Brooklyn, NY.

Andreea Milosevici also joined the Authority's staff, serving as a new Assistant Account Administrator. Ms. Milosevici, who came to the United States of America from Romania in 1998,



Andreea Milosevici

graduated this year with a Bachelor of Science degree in Accounting from Rider University with honors (cum laude). Ms. Milosevici's first day with the Authority was June 6, 2005.

She assists Ronald Marmelstein in the Division of Operations and Finance.

The Authority would like to congratulate Steve Fillebrown, staff's Director of Research, Investor Relations and Compliance, who was recently elected to serve on the Board of Directors for the National Council of Health Facilities Finance Authorities.

Incorporated in 1987, The National Council was created to promote the interests of governmental issuing Authorities that provide a capital financing resource for hospitals and health-care facilities. Mr. Fillebrown serves on the board with six other individuals, all from financing authorities across the country.



Steve Fillebrown



Susan Tonry

Mark Hopkins, the Authority's Executive Director, and **Susan Tonry**, Assistant Director of Research, Investor Relations and Compliance for the Authority, spoke at the *Healthcare Financial Management Association: Current Trends in Healthcare Finance* conference held in Woodbridge, New Jersey. Mr. Hopkins presented on financing options while Ms. Tonry discussed covenant compliance.

Mr. Hopkins will also be speaking at *The New Jersey Institutional Investors Forum VIII* on October 20, 2005 at the New Jersey Performing Arts Center in Newark.

If you would like more information about the presentations, or would like an

Authority staff member to present at an event of your own, please contact Stephanie Bilovsky, in the Communications Department, at szschunke@njhcffa.com.



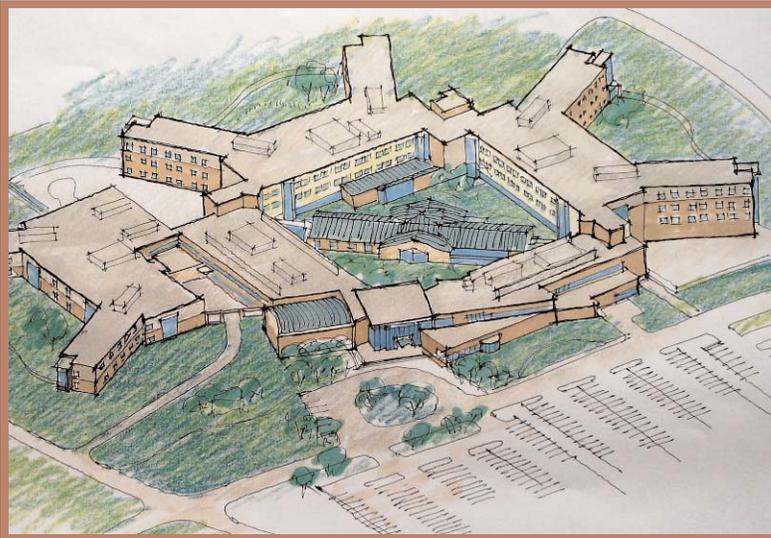
Erica Tantories received a certificate as an honorary employee of the New Jersey Health Care Facilities Financing Authority.

On April 28, 2005, third grader **Erica Tantories** spent the day as a junior staff member of the Authority for "Bring Your Child to Work" day. Visiting the Authority from Burlington Township's Woods Elementary School, Ms. Tantories assisted in duties such as office organization, artwork, and typing, and she also attended a board meeting. At the end of the day she was awarded a certificate to recognize her day of work with the Authority. §



In May, staff had its first annual Diversity Training and Harassment Prevention session. Staff also purchased an educational video on diversity that each employee will be required to watch.

FINANCING NOTES *(continued from page 1)*



Rendering of the new Greystone Park Psychiatric Hospital site

DHS fails to make the rental payment.

On August 23rd, the bond issue for Greystone Park Psychiatric Hospital was priced, and a purchase contract for \$186,565,000 was signed the following day. The bonds were structured as fixed rate securities with level debt service, and all of the maturities after 2010 were insured by AMBAC. In addition, the majority of the bonds were sold as premium bonds with a coupon of 5% to attract investors by providing a defense against rising interest rates.

An offer was made on behalf of the management team by J.P. Morgan Securities Inc., the Senior Manager, with yields ranging from 3.21% in 2008 to 4.55% in 2028. The all-in true interest cost for the transaction is 4.46%. Because the bonds are appropriation debt, the Office of Public Finance played a significant role in the document preparation, insurance analysis, and pricing.

Acting Governor Codey and the Authority staff are proud of their efforts to create a smaller, better and safer Greystone that reflects a new focus on improving mental health care across New Jersey.

On July 14, 2005, the Authority closed a \$95,675,000 transaction on behalf of **Robert Wood Johnson University Hospital at Hamilton** ("RWJ Hamilton"). The proceeds will be used to currently refund bonds issued in 1994 through the

various building improvements.

"As a partner in the health of our community, the Lakefront Tower will help us meet the growing health care requirements of patients and families," says RWJ Hamilton President and CEO Christy Stephenson.



Rendering of RWJ Hamilton's Lakefront Tower, which is expected to be completed by spring of 2007

In order to allow for added flexibility when reacting to interest rate changes, the bonds were broken into two tranches: Series 2005A (\$30,300,000) & Series 2005B (\$65,375,000).

Both tranches are credit-enhanced, with the Series 2005A bonds secured by



Financial Security Assurance, Inc. and the Series 2005B bonds secured by Radian Asset Mark Hopkins, Peter Newell, J. Anthony Manger and Suzanne Walton at the RWJ Hamilton pre-closing

Economic Development Authority, and to construct and equip the Lakefront Tower, a new four-story patient tower on the hospital campus.

The Lakefront Tower will provide for 64 new medical surgical beds and new loading and receiving areas, as well as other



Folders lined up for the RWJ Hamilton pre-closing on July 15, 2005

Assurance. The multi-modal Series A bonds were initially structured as auction rate bonds. The Series B bonds were structured as fixed rate bonds and were marketed first.

The fixed bonds received significant institutional interest. Serial bonds maturing in 2008 through 2020 were priced at yields ranging from 3.11% to 4.27%, and the three term bonds maturing in 2025, 2029 and 2035 were priced with effective yields ranging from 4.60% to 4.75%.

Most of these maturities were structured as premium bonds, since, in the current interest rate environment, bonds are structured as premium bonds as a hedge against rising interest rates.

Though the transaction's first rate period was for 13 days, the Series A bonds were structured with an auction scheduled thereafter for every seven days. The initial rate was set at 2%.

On May 26, 2005, the Authority closed on two series of bonds totaling \$12,055,000, issued on behalf of **The Avalon at Hillsborough**, a newly proposed assisted living facility. The Avalon at Hillsborough will be

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FINANCING NOTES

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owned and operated by Pilgrim River, LLC, a New Jersey limited liability company. Pilgrim River is owned by the Pelligrino and Rivero/Dugenio families, who, through managing Bridgeway Senior Healthcare, Bridgeway Care Center, the Pavilion at Bridgeway, and the Avalon at Bridgewater, have been successfully providing senior living services for the past 23 years.

The proceeds will fund the construction, equipping and start-up costs for the new 81-unit assisted living facility, which will be located on a five-acre site in Hillsborough Township.



Construction site for The Avalon at Hillsborough facility

The bonds were issued in two series: tax-exempt Series 2005A, and federally taxable Series 2005B.

The Series 2005A bonds are tax-exempt since Pilgrim River agreed to qualify the facility as a residential rental project under section 142(d) of the Internal Revenue Code, which requires that a certain number of units be rented to low and moderate-income individuals or families. This Series also requires an allocation of a portion of the State's volume cap, which was received from the Treasurer.

Authority staff worked with the borrower and underwriter, Herbert J. Sims & Co., Inc., to market the bonds to a combination of retail and institutional investors. Initial interest rate levels, approved for marketing purposes on May 5th, allowed the underwriter to take retail orders, seek indications of interest from institutions,



Rendering of The Avalon at Hillsborough facility

and plan site visits.

In one such visit, Authority staff, the underwriter and a number of institutions toured the Hillsborough area and the Avalon at Bridgewater facility. Don Pellegrino and his staff assured the guests that the new facility will be run in the same professional manner as Bridgewater and stated that the expected fill-up rates could be achieved. Investors were impressed with the presentation and with the management of the facility.

The formal pricing took place on May 17th and after receiving orders from a number of institutions, the underwriter made an offer to purchase the Series 2005A bonds at yields of 6.25% for the 2020 maturity, 6.5% for the 2025 and 6.75% for the final maturity in 2035. The Series 2005B bonds, which mature in 2014, were sold with a 9% yield.

These interest rates are higher than those typically seen in Authority issues because: assisted living is a riskier portion of the health care spectrum, the bonds are unrated, and the project is new construction. The underwriter agreed to a call provision in 2009, which coincides with the optional redemption period for the Bridgewater bonds. This enables the borrower to refund the bonds once the facility is in operation and successful. §

CAPITAL ASSET LOAN PROGRAM

The Authority's Capital Asset Program ("CAP") is designed to take advantage of bonds issued prior to the 1986 changes in the tax laws. Loans under the program are continuously repaid, making fresh funds available for other health care organizations in need of capital.

In order to be eligible for the Program, a borrower must be a 501(c)(3) organization and be credit qualified by the CAP credit provider.

In March 30, 2005, the Authority closed a \$25 million CAP loan on behalf of the **AtlantiCare Regional Medical Center**, formerly known as Atlantic City Medical Center.

JPMorgan Chase Bank, provider of the credit and liquidity support for the CAP, performed an independent credit analysis and approved the loan subject to the Medical Center's providing parity security with existing bondholders, which includes a pledge of gross receipts and a mortgage on the real property.

The loan will be used to finance con-

struction and equipment costs related to the Mainland Division's expansion of its Emergency and Ob/Gyn Departments.

In addition, loan proceeds will also be used to finance expansion and upgrades to the Medical Center's central utility plant including new boilers, chillers and condensers. §



AtlantiCare's James Nolan, and Main Street Title Agency's Bryan Nazor at the CAP loan closing



Aerial rendering of AtlantiCare's ER Expansion

HOSPITAL ASSET TRANSFORMATION PROGRAM

The Authority has proposed regulations for the Hospital Asset Transformation Program ("HATP") (P.L. 2000, c.98), which was enacted to create a financing vehicle in which the State may provide financial assistance to eligible hospitals seeking to terminate acute care services at locations where such

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The Authority's 2004 Annual Report is now available in hard copy or online at <http://www.state.nj.us/njhcf-fa/pdf/04annreport.pdf>

ERN *(continued from page 1)*

an Authority Project Manager and you are well on the way to completing your issue.

What can ERN offer you?

- Low cost fixed and/or variable interest rate debt
- A negotiated loan term that will likely parallel life of equipment
- Security provided through equipment liens and/or master indenture notes
- Minimal financing costs
- Standardized documents to cut drafting time §

HATP *(continued from previous page)*

services may no longer be useful.

Pursuant to the HATP, the Authority may issue bonds to refund the outstanding bonds of a hospital that will terminate acute care services at a specific location, and may secure those refunding bonds, in part, by financial support from the State pursuant to a contract with the State Treasurer. Any financial support from the State is subject to the approval of the State Treasurer.

The proposed regulations outline an application procedure for the hospitals and clarify the parameters of support available from the State. For the most part, recipients of support are limited to non-profit, non-municipal hospitals for which:

- no less than 4% of Capital Ratio is expect-

ed for the first year after termination of services, and

- no less than 25% of its total gross revenue is derived from Medicaid, self pay and charity care as of the most recent New Jersey Acute Care Hospitals Cost Report.

The regulations were published in their entirety in the New Jersey Register on June 20, 2005 at 37 NJR 2198(a) and are posted on the Authority's website at <http://www.state.nj.us/njhcf-fa/news.html>.

The Authority accepted comment on these regulations in writing for a required period ending September 20, 2005. Following the publication of any written comments, along with the Authority's responses, staff will present the final regulations to the Authority for approval. §



SENIOR NJHCFFA STAFF

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